

## MGA Default Aversion Symposium II

### Drowning in Debt or Investing in the Future

Dr. Sandy Baum

#### **Introduction: Rick Shipman, Director of Financial Aid, Michigan State University**

Thank you all for being here today. I am very honored to have the opportunity to introduce Dr. Sandy Baum officially for the presentation that she is going to provide to us today. I had the opportunity to introduce her once before and the people who were helping organize that presentation, that was on the National Forum Of Educational Loans, said “don’t get up there and spend all day in an introduction. Make it really fast.” I was introducing three different speakers. So, I think that she got the ..... almost the bums rush on my introduction because I basically said “Here are the three people who are presenting and you all know them” and I sat down. So I am going to make up for it today and just spend a little bit of additional time.

Many of you have heard Dr. Baum present at various venues including College Board and NASFAA and Regional and some state presentations. But those of you who have not, I guarantee have read something that she has produced. She is often quoted and is responsible in large part for the *Trends in College Pricing* document and the *Trends in Student Aid* documents that comes out every year.

I don’t know about you, but I certainly feel that these are must read documents for student financial aid. Those are created under the college boards funding, at least. There is also *Education Pays* which actually came out a couple of years ago in full form but then there have been annual updates that come out. This is a good document because this helps policy makers understand the benefits to society of higher education because there is an awful lot of tendency to focus on the individual benefits to the particular student who goes to college and we know that it is the societal benefits that are most important to policy makers.

Dr. Baum is a Professor of Economics at Skidmore College and she is a Senior Policy Analyst at the College Board. She earned her baccalaureate in sociology at Bryn Mawr College and her Ph.D. in economics at Columbia University. She has written extensively on issues relating to college access, college pricing, student aid policy, student debt, affordability, and other aspects of higher education and finance. She is coauthor of the documents that I just showed to you as well as *College On Credit: How Borrowers Perceive Their Education Debt*, *Graduate And Professional Borrowing: Are Earnings High Enough To Support Debt Levels*.....I see you like colons in your titles.....*Life After Debt*....I thought this was one that was actually intended to really rouse some people up. ;=)

Results of the national student loan survey, A primer on economic for financial aid professionals and *Fixing the Formula* which is a new approach to determine independent students ability to pay for college. Now that is just a very small listing of the publications. I actually did a Google search for Sandy Baum and came up with 1.34 million hits so I thought "I don't think I am going to research all of those for this." But I came up with an interesting "You Tube" posting for her. It was posted on October 24 which was an interview she did on CNN with Lou Dobbs Tonight. It was called *The War On The Middle Class* and Lou tried to really corner Sandy into saying things that she does not typically say and she held her ground and did a good job to focus him on the real affect of educational costs which is where he was really trying to go and how out of control they were. Sandy helped him keep it balanced. You can find that on You Tube. If you just look for Sandy Baum on [www.youtube.com](http://www.youtube.com)

Other recent work that Dr. Baum has done include studies of bench marks for manageable student debt levels which many of us in MSFAA have talked about before in our board meetings and of tuition discounting in public and private colleges and universities. She has provided testimony to congress including in 2003 the committee on education in the workforce subcommittee on 21<sup>st</sup> Century Competitiveness. Dr. Baum has served as consulting economist to the College Boards Financial Aid Standards and Services Advisory Committee since 1988 ... (Justin, were you alive then?? :=) I think he said no.) And, has worked with a variety of other higher education organizations of course, NASFAA, NICO, NACUBO and The Pathways to College Network in addition to individual colleges and universities. So, without further adieu, please join me in welcoming Dr. Baum and I am sure you are going to enjoy this presentation.

Dr. Baum comes to the podium.

### Drowning in Debt or Investing in the Future?

Thank you, Rick. That was more than you needed to do as an introduction, I appreciate it. The Lou Dobbs thing, I have to tell you, the reason that was on You Tube, you might wonder, is because my son put it on You Tube so that his siblings could easily see it and they were all just appalled at everything about it. It was a real struggle for me because there is no way to create a balanced conversation in an interview with him. I thought I was sort of prepared for the questions that he would ask like, you know, what about financial aid for un-documented immigrants, what about, aren't you worried about the middle class but it was just off the charts. He started out by saying...not.... by introducing the segment by saying "the college board has just issued an explosive new report!" I thought "this is EXPLOSIVE??"....There was nothing EXPLOSIVE, I mean there was some disturbing things, and some good things.....so it was very difficult. I just actually heard that someone else was interviewed by him doing an essay on NPR talking about how totally impossible it was to be interviewed by him because he didn't want to interview, didn't want to ask questions, he didn't want to listen at all, he just wanted to lecture. So, I felt better.

So I am going to talk....in more, a little bit more intensely and throw more at you I am afraid, than Justin did but keep on the theme of research and show you some of the results of some of the research that I have done and hopefully it will plant some ideas in your minds for.... and will just raise further questions which, as he said, any research would do and then provide some ground for you to continue and ask more questions of your own.

I will start, however, with an anecdote that is totally not statistically significant about my own student debts in my family. My oldest son, who was as cute as Justin's son, about 27 years ago, had \$4,000 of student debt. Got a great job after he graduated....a couple of years after he graduated. He is actually on tour with U2; he is right now in Australia with U2. And so, in addition to paying him reasonably well, he is on tour, has no expenses, they pay his expenses and they give him a \$50 a day per diem, in cash. There he is, he was in Europe and sort of traveling around the world with \$50 a day in cash in his pocket. So he came home and had \$3,500 in cash, in his pocket, and he said "here, what should I do? I have to put this in the bank." I said "I know what you should do with this; you should pay off your student loan." He absolutely refused to do that. He was like "I am not paying that. Why should I pay that....its not fair that..." I mean, it was exactly what you would hear from....and I thought, oh, my god. He eventually.... I got him to pay \$1,000 and two months later he paid the whole thing off. But it was interesting to me, it was just really notable, the resistance that he had to the idea that when he had this money, that they were going to take it away from him in some way, it wasn't fair that he was supposed to pay it. So if that's the problem, I don't know what the answer is.

What I am going to do is sort of go through first some back ground information that comes mostly from *Trends In Student Aid* about what's happened to student borrowing and then talk a little bit about my work on manageable student debt levels and how to think about what is reasonable for students in terms of borrowing. I am happy to answer questions at any point so don't feel like....you know.....so ask me questions if you have them as I go.

The first issue is we all know that student borrowing is increasing student reliance on student loans. However one of my real concerns is the exaggeration that this receives in the press. If you Google *drowning in debt*, you will come up with many, many more hits than if you Google Sandy Baum, I promise you. Every day there are articles drowning in debt, drowning in debt, and everybody just talks about it as though it was a major catastrophe for everybody who goes to college or doesn't go to college. I think we have to have....somehow contribute to a reasoned conversation about the fact that student's loans do cause problems for some students. That we are concerned about how much students borrow, but student loans basically are.....open the door to higher education for many people. And most people can reasonably pay back their student loans and so we have to focus on the pockets of student for whom there are issues, not everyone.

But if you look.....but this graph does.....this is from *Trends In Student Aid*, and its got undergraduates on the left and graduate student on the right and I think that this division is very important because the red lines in each case show from 1991 to 2005 what happened to the percentage of the total funds that students used to pay for college that are in the form of loans and the blue lines are in the forms of grants. And the reason I say *total funds* instead of student aid, that's not exactly total funds, because it doesn't include contributions out of income and parent contributions. It is student aid plus private loans and since I don't consider private loans student aid, I don't want to say a *percentage of student aid* but I to want look.....those types of loans to be in here to show the ratio of grants to loans. For undergraduate students, you can see that actually from most of this time period from like, 19.....well then, that grants were actually pretty comparable to loans. In fact, early on we had grants exceeding loans as a share and then they became fairly even but just in the last few years since like 2002 what's happened is that the percentage in the form of loans has increased very rapidly. So just a few years ago when I talked about this, I put it out to people that despite all the conversation about loans actually students...undergraduates have pretty equal amounts of grants and loans. But that is not true since the stagnation of the Pell Grant and since the dramatic increase in borrowing from banks, private loans. If you looked at graduate students on the other hand, for graduate students 75 percent, 70...about ah .....of their funding is in the form of..... I guess it is lower than ..... about 70 percent now, in the form of loans. So if you look at graduate students, they are much more dependent on loans than undergraduate students. And that is, of course, a very different cup of policy question. I just think it is really important to make that distinction. But it is also important to see what has happened in the last few years.

In particular if you look at the loans that students are taking.....what this graph does is it divides the loans into their components. So, the bottom segment, this is 1995 – 2005, so just the past decade....the bottom purple segment shows the percentage of those loans that are subsidized Stafford Loans. 57 percent of the education loans were subsidized Stafford in 1995 and a decade later that percentage had fallen from 57 percent to 34 percent. Unsubsidized Stafford Loans have increased slightly as a share of total borrowing from 30 percent to 34 percent. That means that the breakdown between subsidized and unsubsidized in the Stafford loan program has changed pretty dramatically. Now they are pretty equal whereas a decade ago, almost 2/3's of the Stafford loans were subsidized.

The orange segment of the bar show PLUS loans which now constitute about 11 percent of borrowing and the dramatic change is in that top purple section which is private loans. They have gone from about 5 percent to about 20 percent of borrowing over the past decade. I think that is just incredibly important for our understanding of what is happening to students and our thinking about student loan policies, actually. These data come from ... of course, it is very difficult to measure the volume of private borrowing but this really comes from me getting on the phone and talking to all the major and some minor borrowers and getting their data from them. And about 50 percent of the loans.....I'm sorry, about 80 percent of these private loans are to under

graduates and that is a dramatic increase over the decade as well. Earlier in the decade a much smaller percentage, less than half, went to undergraduates.

So, when you think about what is going to be happening to borrowers and you listen for example to the public policy conversation that is going on now about the interest rates on federal loans, the democrats are out there saying they are going to cut the interest rates on federal loans in half and whether that's a good idea or not is another question but even if they do it its going to solve the problem less and less for students as they rely more and more on private loans. And I think it is really important for people to understand that.

What about the levels of debt that students are accruing? I think if I just ask people....it's very clear if you went out on the streets and said what's happened to the amount of debt that students are accumulating, everybody would say it has just gone up, up and up. The answer to this really is that over the course of the past decade it is absolutely true both that the percentage of students who graduate with debt and the median level of debt among those borrowers has increased. But it has not been a smooth path over the decade.

In this graph the bottom bars show you bachelors degrees at private 4 year colleges, then bachelors degrees at public 4 year colleges, bachelors degrees at for profit colleges and the top two segments, associate degrees first at public 2 year colleges and above that at for profit colleges. In each of the sets of bars there are 4 years of data represented. That is because we have 4 years of national post secondary student aid study data to work with so 1992-1993, 1995-1996, 1999-2000 and the most recent top bar of each set is 2003-04. And just looking quickly at the bars what you can see is that the top two bars are much longer than the bottom two bars so that there was a significant increase in median debt levels of students who received degrees between 1995 and 1999 but not between 1999 and 2003. In fact, there has been a decrease, in some cases, after adjusting for inflation in the amount of debt that students graduate with.

Now, if we had 2006 up here, I am quite sure that we would have significantly higher debt levels than was the case in 2003. I don't want to over play this and say "oh don't worry, debts aren't growing." But the fact is that this is not just a continuous path of growing debt. The highest debts come from bachelor degrees in for profit institutions but if you look at bachelor degrees overall, the median level of debt with which students graduated in 2003-04 was between \$17,000 and \$18,000. The mean was between \$19,000 and \$20,000 so, you know, if you graduated with a bachelor's degree with \$17,000 or \$18,000 of debt.....this is not going to ruin your life and you are likely going to borrow that much to buy a car as soon as you graduate. I think that these numbers are very important in terms of sort of getting the conversation in perspective.

The other thing is, of course, that the percentage of students who borrow matters a lot. In for profit bachelors degrees, 88 percent of the students borrowed whereas only 62 percent of students receiving bachelors degrees from public 4 year colleges had

borrowed. That makes a significant difference. Here, you know, back to sort of the question, how do you present data, how do you think about data. To think about what is the median debt level; the median debt level for borrowers. If, suppose that everybody borrows exactly the same amount of money this year as they did last year but you have a bunch of students who also say "I just need to borrow a little bit more money" and they take out \$1,000 in debt. What happens to the median.....it goes down. Is anybody better off? No, nobody is better off. So it can be very misleading just taking this number. One way to control for that is by looking at the average debt of each student so you look at the mean debt of borrowers and divide it across all students but that is not going to tell you about individual students.....the problems they are facing. There is not one magic number that will describe the situation. That's even more true because of the wide variation in the amount of debt that different students accumulate even within degree types.

So what this graph does is it takes each of those degree types that were in the previous graph, and instead of showing you the median level of debt of borrowers as the previous one did, what this one shows you is for 2004 only the *distribution* of the debt levels of borrowers. So for example, if you go to the bottom bar that's bachelors degrees at private 4 year colleges and 19 percent of the students who received bachelors degrees from 4 year private colleges in 2003-2004, who borrowed, had borrowed less than \$10,000 and 11 percent had borrowed more than \$40,000. A third of them had borrowed between \$10,000 and \$20,000. What you see is that at each degree level there is a real, real range. So, associate degrees at public 2 year colleges, 71 percent of those borrowers are borrowing less than \$10,000. But, on the other hand, when you see that 14 .....excuse me 12 percent of them are borrowing \$20,000 or more, you might want to worry about that 12 percent of students who are graduating with a associate degrees with more than \$20,000 worth of debt.

It doesn't mean, we should run out and say, "panic, don't borrow if you are going to a community college" which I know in fact on many community college campuses that's sort of what people are telling people. It's not that we should worry about everybody who borrows; its we should worry about those students who are borrowing a lot and we should figure out what is going on with those students who are borrowing so much and in particular what's going to happen to them after they graduate. If you look at a distribution of earnings levels, what happens to people after they graduate and you put it together with a distribution of debt, you start to see where the intersection of the real problem is. These are annual earnings levels for people between the ages of 35 and 44 and I know that's older than many of the people who are paying back their debts; but it is similar for the lower age group. What it shows you is that if you have a bachelors degree, the median earnings are \$54,800 at that age level so that is pretty good and you're not going to have trouble paying back your debt there. However, if you look at the range, what you see is that 28 percent of those people are making less than \$40,000 a year. Ok, so if those are the same people who borrowed a lot to get their bachelors degrees, then you can see where the problem is going to be. So again, in speaking just in averages just doesn't tell the whole story; you have to look at the

distributions and you have to look at the circumstances of the individuals who are involved in order to see where there are likely to be problems.

I think this is really important for the public policy conversation because the reality is that whatever anybody might think about it, if students are going to keep going to college, they're going to keep borrowing money because there's not ..... its suddenly not going to get to be free, we're not going to be giving away \$15,000 stipends to live, it's just not going to happen. People have to borrow money. So we have to think about who the students are for whom we have to ease the burden; not just talk in general terms about student debt as a problem if we want to be constructive in terms of finding a solution.

So, having looked for a long time at this kind of information and about sort of.....having done a number of studies of borrowers in repayment and how they perceive the burden of their debt and trying to get a handle on what levels of debt really seem to be causing problems, I started getting very frustrated by the fact that I don't feel we have a good bench mark for how much debt is too much. If you look at the literature on student debt, the most commonly cited bench mark is that if a student, a former student is using more than 8 percent of his or her income to repay loans, then that is considered extensive. But mostly what you find is that people do a study and they say, ok, I am going to count how many people have more than 8 percent. Not, let's think about whether 8 percent is a reasonable cutoff. And I think that that number had been around for a long time and so together along with my colleague, Saul Schwartz, we decided that we needed to try to see if we could think more systematically about this.

Saul and I had written the first Nellie Mae study of *Student Borrowers in Repayment* back in 1987-88 and hadn't done anything together since then and then we just said ok, let's put our heads together again. And we came out with this study and I think it is.....you know, there is not a right answer to this question but my hope is that it can help people to think in a better direction about it and.....come up with some reasonable ideas. So what we decided was that we know there is not a right answer; it's not like there is a number to pull out of a hat. So that what we would do was look at the question from as many reasonable perspectives as possible and see if we put all those perspectives together what would we come out with. Would we be able to synthesize our findings into one coherent whole? So we thought, well let's look first at banking industry standards. We think that is probably where the 8 percent came from. Let's see..... banks know a lot about how much people can borrow. Let's look at that.

Another issue would we be we talk all the time about the reason that it's totally sensible to borrow to finance your higher education is because you will have higher earnings after your education than you would have had had you not gone to college. So let's look at how you're likely to live with those higher earnings compared to how you would otherwise have lived and think about in terms of those relative living standards how much you could afford to pay on your student loans.

Another approach that we decided to take is one that I don't think anybody had really talked about before but we know that there is a lot of energy that goes into thinking about need analysis; about how much can families in different circumstances afford to take out of their incomes to help pay for their children's education. So shouldn't there be a parallel between that reasoning and the reasoning about how much former students can afford to take out of their incomes to pay back their loans? Then we thought, well, you know, if you want to look at public policy where some ideas about reasonable payment amounts have actually been implemented, you can look at income contingent loans. We have a small income contingent loan repayment plan in this country and there are certainly very significant ones in other countries that it might make sense to look at.

Then finally we do have surveys of borrowers in repayment and we know what borrowers say about the burden of repaying their debt. So if we could just get some kind of indications from all of those different sources, maybe we would be able to put it together and synthesize it into some answers. So, that's what we did and there is a paper, *How Much Debt is Too Much* which is available both on the College Board web site and TICAS..... that's the ..... Ok, .....the project on student debt, maybe that is the best name for it. Bob Sharman has project on student debt and The Institute For College Access And Success is TICAS and their web site is the same web site and has the paper on it as well. But just to give you a little bit of brief overview of what we did.....before I get to those perspectives I just mentioned, I think a minute of theoretical grounding is helpful. In economic theory there is a very well known concept called the Life-Cycle Model; sometimes called the Permanent Income Hypothesis. Actually, the permanent income hypothesis term was coined by Milton Friedman who just died last week, Nobel Prize winning economist; as was Modigliani who came up with the Life Cycle Model in 1954. Basically, what this theory says is that people don't base their level of consumption only on their current income. Annual income is sort of an arbitrary choice of how we measure income. They base it sort of more on their life time income. So just as if you get paid once a month, it would be ridiculous to say you're going to consume at a very high level one week and then not consume at all the for the other three weeks of the month. Presumably most people..... first of all you have to pay for your rent or your mortgage for the month, you are not going to live in a nice place for one week and then go live in a hovel for the other three weeks because you didn't get paid those weeks. So the same reasoning says that, you know, if you are going to think about your longer term income and if you have a very low income for one year, you are probably not going to change your life style so dramatically as you would if you knew you had a permanent decrease in your earnings. The same would be true of an increase and so what we know of the Life Cycle, people tend to have low earnings when they are young and then their earnings rise and they get to some sort of period of peak earnings and then they retire and have lower earnings. What we see, in fact, is that consumption levels are much smoother over a life time than our earnings levels.

What does that mean? What it means is that we expect that people.....young people borrow and then they pay back the loans and hopefully save for retirement during their peak earnings periods and then in retirement people live off their savings. How smooth

it is is one question but certainly more, you know.....it is smoother, we know that for consumption than it is for income. So what is the implication of that for student loans? The implication is it's fine that students are borrowing when their earnings are the lowest and when they are in school certainly their earnings are the lowest. It doesn't mean that they have to pay back their loans in the first couple of years after they graduate. And, it also actually means that much as we like to think in terms of its fine to borrow for your tuition but please don't borrow to do anything extravagant. Like if you borrowed for spring break, most of us would say to people who say should I borrow an extra \$1,000 to go on spring break. We would say no. But if you have a student who, you know is studying business and planning to be an investment banker and expecting to make hundreds of thousands of dollars immediately upon graduation, and they want to borrow an extra \$1,000 to go on spring break, you know that's not crazy; maybe that's reasonable. What is says is maybe we should think a little bit more big picture about the students and their lives and put that into context in terms of their borrowing. There is, of course, a lot of uncertainty and we may want to prevent students from getting into trouble given the uncertainty but the reality is that people all the time are borrowing against their futures.

So, we looked at, you know, all the sources that I mentioned but just to mention a little bit about a couple of them. Evidence of borrowers in repayment, in the Nellie Mae studies of which there have been four since the first three more..... aside from the initial one. There were several questions that persisted in each study and we can look over time, what people said. Is repaying your loans harder than you had anticipated it would be? If you had it to do over again, would you borrow less? About the same amount? More? How burdened do you feel by your student loan payments? What we did was we took those three questions and we put the answers to those three questions into an index so they are all answered on a continuum of one to five. Rather than just taking one of them, we said, you know, let's put all the answers together and if you said not a problem at all on all three of them, then you are not a problem at all. If you said terrible burden on all three of them, then you had the worst burden index.

What we found was, in general, people who had payment levels that required less than 7 percent of their income to repay; almost nobody had a serious problem or voiced a serious problem. In the 7 to 11 percent range, you start to see people saying, you know what, this is actually sort of a problem, I wish I didn't have to do this. When you get up as high as 12 percent then you see sort of a break and people are really saying, I do have problems with this. I really wish I had borrowed less money. But when you get above 17 percent that's when you see really.....a clear.....people just are saying I can't manage this. So it is not surprising that the higher the percentage of your income you have to devote to your loan payment, the more burdened you feel. Unfortunately the data here were not sufficient for us to really be able to see how these perceptions related to the amount of income that people have.

One of the clear things, just logically, when you start out thinking about benchmarks, is that the higher your income, the higher the percentage of your income can reasonably be devoted to repayment. Any of us would say that somebody who is making \$150,000

a year, if they had to devote even, say 20 percent of their income to repaying their loans, if you said to somebody, ok, pretend you only make \$120,000 a year, it doesn't seem like they are going to starve if that's the case. They might not be happy with that 20 percent but they could do it. Whereas if somebody is making \$20,000 a year, the idea that they are really going to come up with \$4,000 of extra money to pay back their loans, we can see that it would be a real stretch. We are not going to be able to come up with one number. We really would like to come up with numbers that are income sensitive. With a Benchmark that is income sensitive. So, that is a problem with some of those numbers.

There was in terms of the borrower perceptions of repayment.....there was actually some good news. When we looked over time, this is now not looking at different amounts of repayments, but with these four surveys, over time, things got worse in terms of peoples attitudes toward repaying their loans. But, there was actually some good news over the decade of 91 to—2002. In both cases about 70 percent of people said, student loans really provided access to college for me. I don't think I could have done it without it. What was interesting to me was that, of the people who left school without earning a degree, the percentage who attributed that to school loans declined quite significantly from 91 and 2002 from 46 percent to 29 percent. Similarly among those students who did not go to graduate school, the percentage who said I didn't go to graduate school because of student loans, declined significantly as well. I don't have really, evidence to explain why that is, but my hypothesis of that is that it has become more of a norm for students to borrow to go to school so they are no longer as panicked at the thought that they would have to borrow and therefore. ....they.....it doesn't.....they don't attribute their behavior so much to student loans. You can argue about whether this is a good or a bad thing. I think it is a good thing. In terms of whether people change their careers or not, even in 2002 fewer than 20 percent of people said that borrowing had any significant impact on their career choices. Now the studies, some studies have said that is a significant impact. The most convincing ones are among lawyers who choices are, you know, should I be a public interest lawyer for \$35,000 a year or a corporate lawyer for \$135,000 a year? And, they really have borrowed \$150,000 and they just won't be able to pay it back if they make \$35,000 a year and logically that's significant. Not to say that most of them would choose the \$35,000 a year job even in the absence of student loans but more of an impact but the \$20,000 of typical debt for BA recipients is pretty reasonable that it's not greater than that.

There was actually some pretty bad news also looking over time with these findings. The percentage of people who say that the benefits of their loans were worth the difficulty of paying them back declined from 74 percent in 1991 to 59 percent in 2002. The percentage of people who said they wished they had borrowed less, they would borrow less if they had it to do over again, is now more than half of the borrowers who responded to this survey. The percentage of people who said that it was harder to pay back their loans than they had expected it to be has increased. And the percentage of people who said they had delayed buying a house because of their student loans has increased. Now one real caveat about these things .....this doesn't mean that 38 percent of people **really** delayed buying their home because of their student loans. This

is one of the consistent findings in these studies is that about a third of the people say, oh my god its changed my life, you know, I didn't buy a house, I didn't get married or whatever. But if you look empirically at the probability of buying a house, how is it affected if you controlled for other factors by the amount of student loans that you have, it's all trivial. It's harder for people to buy houses now than it was a decade ago because houses are more expensive, incomes haven't grown commensurately so they are frustrated; so you say to them why didn't you buy a house. Is it because of student loans? Yes! It's because of student loans; but its not. People get married later, people have children later, and they are less likely to buy homes. There are all kinds of things that are not really what students say they are. So I think that's one reason that things get exaggerated in the press is because you go up to a student and you say, so have student loans ruined your life? I bet they have and they say, yes they have. Doesn't mean that they have.

That's interesting but doesn't give us any benchmarks. Looking at the need analysis system I think actually does give some benchmarks. Federal Methodology actually is not, I would say, a system that people have spent a lot of time thinking hard about really how much can people afford to pay and developing a good formula. So leaving Federal Methodology aside, the Institutional Methodology which is on the profile form from the college board actually is a formula that I and other people have spent lots of time and energy really trying to figure out, ok, what is appropriate for families with different incomes. Here I think it's not appropriate to talk about students because the Need Analysis Methodology really, you know, sticks it to students and says, you got any money? Spend it on college! Any, you don't mean to say that to people repaying their loans. But for parents of dependent students we say, we understand that you have lots of other responsibilities but we think that you can use some fraction of your discretionary income to help your child go to college and that's parallel to what we would like to say to borrowers in repayment. We understand you have other responsibilities, you may have families, you may have mortgages, you have live your life, you want start saving, but some fraction of your discretionary income could go to paying back your loan.

So what this table does is.....it uses the institutional methodology and sort of adjusts it for what if you were a family size one and, of course, there are no parents of dependent students who are family size one but you can adjust for.....using equivalency scales. It says at different income levels and in this table going from \$10,000 by \$5,000 increments up to \$80,000 what percentage of income, this is ignoring assets, what percentage of income does the institutional methodology say that people would be expected to contribute. The first thing that is very notable here is that below.....somewhere between \$15,000 and \$20,000 it doesn't expect a parental contribution. We understand that when people have very low incomes, they really don't have any discretionary income and they can't pay. The percentage of income that we expect goes up as incomes go up and at \$80,000 hits about 15 percent and remember that at 17 percent that we saw that real bright point in the responses that students gave about how burdened they feel.

So, this looks sort of interesting I mean, if you look at what you think people with bachelors degrees who are at the stage of paying back their loans are making. Sort of in the \$40,000 range 9 percent, \$45,000 10 percent, people with lower incomes, less but these are percentages that are sort of in the range that seem like they might be reasonable, that are manageable for most of those borrowers in repayment. So that seems sort of like a good scale. Looking at what....at relative incomes, when I said looking at the earnings premium, and if you paid part of that earnings premium, from having a college degree, how much could you pay. That gave some, sort of, similar numbers. Putting it all together, we basically concluded that asking anyone to pay as much as 20 percent of their income in student loan repayment is probably excessive. That's just like a real ceiling that we wouldn't want to go above. And we have to be thinking about high incomes here because we are thinking about doctors and lawyers and people who really make a lot of money but have big debts.

And then second, we think that people with low incomes really can't afford to pay anything. And so we have to have some scale that raises the percentage of your income as you go up. What we came up with was this table of proposed benchmarks and what it says is that if your income is below 150 percent of the poverty line, you probably can't afford to pay anything and so that would be for a single person, and this was in 2004 numbers, it was about \$15,000.....\$14,700. What that would say is that if you are a single person and you are only making \$15,000 a year, we really don't expect anything of you. But above that level, suppose we expect you to pay 20 percent of the additional income above that level. That doesn't mean 20 percent of your total income but 20 percent of your income above \$15,000 because we want to pick one number just to be simple. What we come out with is the annual payment that you see in the next column which is 20 percent of income ABOVE 150 percent of the poverty line. What you get in the fourth column over is the payment, monthly payments, or the annual payments, it's a percentage of total income, and what you see is that they get up to 18 percent when you have an income of \$150,000. If your income is \$40,000, its 13 percent, if your income is \$30,000, its 10 percent. Are these numbers exactly right? Maybe we would say 18 percent of income. Maybe some people said we should say 15 percent of income. Maybe we should say more but approximately this seems like a pretty good benchmark and we are thinking about it as a maximum. We really believe that above these amounts you are getting to levels that are just going to be unmanageable by all definitions. This isn't meant to say that everybody should pay this much, this is meant to say this is really a maximum. These are much lower than our current income contingent repayment plan asks for.

If you look at how much total debt can be supported with a 6.8 percent interest rate with these benchmarks, if you are talking about somebody who is making \$30,000 a year, its \$22,000. Which means for those people, we don't have far to go in terms of the median debt levels of borrowers; they are probably that high now. That means that for anybody with incomes that aren't going to be higher than that in their first years.....in sort of .....in at least 10 years after graduating, that could be a problem. On the other hand, if you are going to be making \$100,000 a year a few years after you graduate, which certainly some people are, that you could carry \$124,000 of debt. This is just meant to be sort of

a benchmark people can.....You know, based on experience, based on the types of students you have, whatever, can alter it, but we think it is a pretty good starting point. And actually Senator Clinton proposed a bill earlier this year for income contingent repayment in which these benchmarks actually were incorporated as a sense of what kind of income contingent repayment plan we should institute. I don't think even now it is going to pass in its current form but there is going to be more conversation about this sort of thing now, I think.

What are some of the problems, now this doesn't cover.....obviously the situation is much more complicated. For example, where you live matters. If you live.....if you make \$120,000 in Manhattan versus \$120,000 in Manhattan, Kansas, you are in a very different situation, right? Obviously you would want to factor the geographical cost of living into calculations. This is sort of meant to be, in general, and as a maximum and I think if you live in New York City or Honolulu you want to say, you know, these percentages are just too high. One of the things that was a little disturbing to me is that you know, one of the questions is, do we mean those percentages of your starting income or of your income after ten years..... And that's again not clearly defined.....probably somewhere in the middle of your years in repayment. I would have thought that given that over the time you are repaying your loans, for most people the monthly payment stays the same and the income goes up. We think it should get easier.

This is related to the question default rates and default rates right after college, why are they not much lower.....much higher than default rates later on when people have more income. We asked this question .....we looked at, you know, what had happened.....the difference between people who were out of school for less than 3 years and out of school for more than 3 years and actually even though the payment ratio was lower for students who were out of school for a longer time, more students felt burdened, more students felt that it wasn't worth it. In other words it got worse. Even as their payments were becoming theoretically less burdensome and actually less burdensome in dollar terms, they felt worse about it. And it could be that they are tired of repaying and it could also be that as they get older they have more responsibilities. They are more likely to have children and families; they are more likely to own homes; they are more likely to have bought cars and, therefore, they say my student loans are a problem. I think that's another thing we have to understand about student loan repayment. And it fits with what I said before about if you ask students what they say.

You know, there have been a couple of books that I am sure many of you have seen or at least heard about. Tamera Draut (Strapped: Why America's 20- and 30-Something(s) Can't Get Ahead) and Anya Kamenetz, who.....I can't remember the name of her book, (Generation Debt).....writing about the current generation and all the debt and they're drowning in the debt. And basically what they say is, look, incomes aren't up, housing pricing is up, healthcare is up, everything is expensive. The problem is student loans. The problem is **not** student loans. The problem is much bigger than student loans but it still means that people are going to focus on this as something, I mean; they understand that they want to buy a house, they want to take a mortgage,

and they don't want to have student debt. It is in their past and maybe they don't remember the benefits so well any more...but, not a solution.....just letting time pass.

Another caution about the benchmarks...it that another difference is that, it's not just your current earnings how burden you will be by your debt. It is also your family of origin. If you come from a low income family and your family is still, 1) depending on you to help them out and, 2) not able in any way to help you. So, not going to give you a down payment for a house, not going to pay that deposit on the first months rent, just not going to be able help you at all, certainly not with your loan payments. You are likely to have a much more difficult time. When we looked at the difference between Pell Grant recipients and non-Pell Grant recipients in terms of their perception of the burden of their student loans, we found that three quarters of the Pell Grant recipients said "without loans I couldn't have gone to college. They really provided access." That was greater than the two thirds of non-Pell grant recipients who gave that response. However, among students who left school, Pell Grant recipients were significantly more likely to say it was because of student loans. They didn't have more debt. They ended up having about the same amount of debt because they tended to go to cheaper schools. Even though they don't have money from their parents, they tended to go to cheaper schools. Their household incomes were a little bit lower but they tended to say that they really were having a harder time. So, non-Pell recipients were more likely to say their loans were worth it, particularly more likely to say that their loans were worth it for career opportunities. Pell recipients were significantly more likely to say they wished they had borrowed less and they were more likely to attribute the delay in buying a home to their student loans. Now we know that for, you know, middle and upper middle and upper class families, that parents are helping students buy houses.....helping their kids buy houses. We know that the Pell Grant recipients really, you know.....a big part of the issue is their parents are not going to help them. But still the student loans become a bigger problem and are perceived as the bigger problem. What to conclude from that in terms of what it means by student borrowing is unclear. Certainly we do not want to discourage low income students from borrowing and therefore, limit their educational opportunities. But it really means that we have more grant aid for those students so that they don't need to borrow to the same extent. And that's not something we can necessarily do something about

Where does all this lead us? I don't think that there is a simple answer because I think that we have to really be pushing on the role of student loans and creating educational opportunities. We have to make it clear that for the typical student who borrows the typical amount and graduates and gets the typical graduates, that's big, and gets the typical income, they are going to be fine. But there are many students that are not fine and the percentage of students who are not fine is growing as more and more students are borrowing excessively and as we don't solve the degree completion problems. So certainly one thing we need to do is give students more information. Of course, one of the problems with benchmarks is, it is one thing to say we can tell you whether you are going to have trouble based on your income, but you don't know what your income is going to be. So, you have to work that uncertainty into it. That means that income contingent repayment becomes really important because right now we base virtually all

the subsidies we give students on their financial circumstances **before** they go to college instead of their financial circumstances afterward. We can't make it so students don't have to borrow but maybe we can make it so that fewer students get into trouble, so that fewer students have the.....we can't help my son with the money in his pocket but maybe we can help the people who we know don't have the money. Try to do more loan forgiveness and more income contingent repayment.

Then, there is the interest rate question. This is something that I feel like is very hard to talk about this issue because, of course, lower interest rates are good for students. But the fact is that it will be terrifically expensive if the democrats actually cut interest rates on student loans in half. Terrifically expensive. The biggest benefits would, of course, go to the people who borrow the most, who are the doctors and lawyers. The fact is that most students.....I mean, in terms of creating educational opportunities, I mean, students don't even know whether their loan is subsidized or not, much less what the interest rate is going to be when they graduate. So, all we can do is help people, and help people for a long time, its going to be a loan consolidation, you know, more because we are going to have huge subsidies over a long period of time to many students who need it and many students who do not need it. Moreover, this private loan issue is just huge because these lower interest rates aren't going to help the people who are increasing dependent on private loans. So I think we need to give people more information about the benefits of borrowing through the federal government instead of through private loans but we also have to make those loans more available.

I don't have an answer but I do think that trying to think reasonably about what is manageable debt for students is very important and I am quite certain that the principles that low income student.....people with low income really can't repay but people with higher incomes can repay larger amounts and that nobody should be paying more than 18-20 percent no matter how high their income is and the percentages should be significantly lower than that at lower income levels do seem valid to me. So I am happy to answer questions.

**Q.** The question is why don't we allow students to borrow more money so that they don't have to go to private loans?

**Dr. Baum:** I totally agree with you. If I could choose, I would raise loan limits rather than cutting interest rates as much as they plan to cut them or rather, than fixing interest rates. But there are a couple of questions, I mean, one is.....why are people taking private loans instead of PLUS loans. Because through the PLUS loans, I mean, you have to have credit for these private loans and so.....I think we should figure that out. That is a good research question. Ask people why they are doing that. But more than that.....you know, the student lobbying groups are opposed to raising loan limits. Certainly, I know Senator Kennedy has said "how can I advocate raising loan limits when the students oppose it." And they oppose it because they say if you raise the limits people will borrow more. I think the information on private loans makes it very clear that that's not the case. They will.....what they are doing, they're not borrowing

less, they are just putting it on their credit cards and going to private lenders. I totally agree with you but there is a real political problem with it.

**Comment:** PLUS loan problem – parents aren't in a position or can't save for their children's education and when it comes time to sign a PLUS loan they just won't do it.

**Dr Baum:** The parent willingness is clearly a big question but, of course, parents are co-signing these private loans. Maybe they don't get it what it means to cosign the loan. I think one thing we could do is have conversations with families that, you know, it not, I mean, it would be nice to think that there is some level of trust among.....I know you read about parents and student suing one another about their loan repayment. The fact is that the person whose name is on there is .....I mean you can have a deal with your kids that they have to pay.....I mean, my kids have a deal with me that I have to pay for most of their student loans. So.....yeah, I think we have to figure out how to approach that question differently but from a policy perspective, it is harder to argue about raising loan limits given the PLUS loan limits. I think we should still make the argument. The graduate PLUS loans of course is another huge issue. How come we are willing to do this for graduate students? Graduate students now can just borrow whatever they want and may see fixed low interest rates.

**Q.** The question is are private loans perhaps taking the place of credit cards because some schools aren't allowing credit cards on campus. Is there research on that?

**Dr. Baum:** One thing about credit cards is that if you look at where students get their credit cards most of them don't get them on campus anyway. No problem getting a credit card; look how much mail you get every day that says take a new credit card. A lot of people have done surveys to ask students where they get their credit cards. So, whether you ban credit cards on .....solicitations on campus or not, is not going to, I think, have a significant impact on whether students have credit cards or not.

**Dr. Baum:** Payment by credit card? Ok, so, if you can't pay by credit card, if you need the money, I think that.....we don't know, one thing is that in terms of total of student debt we know very little about this. We don't, for example, know about home equity loans; this could actually end up having a big impact in the next couple of years, right? Because we don't know, for example, how much of the unsubsidized Stafford Loans are replacing home equity loans. So, while it is documented as an increase in student borrowing, it may not be. It may be that people said, oh, now you can.....you child, take the loan and you know, you will pay it back and that's available. There is no way to document that. There is no way to document the credit card debt that's really.....cause if you pay with your credit card maybe you are doing it for frequent flyer miles, you know. Maybe you are paying it back or maybe it is on zero interest credit cards and its possible that the private loans are not so much, you are right, an increase in total debt levels but.....none the less, I think that they are very worrisome. If you look at the way that the interest rates are structured on these private loans and the different interest rates that are available to students in different circumstances. When you have people getting 16 percent interest rates on their private loans and that is just .....whatever it is,

you know, it's like putting your college education on your regular credit card. It can't be good for students and we have to find some way, I think, to limit that. For some students it's certainly true that the availability of private loans is a good thing in terms of making funding available to students but I think that what it is likely to be doing to a lot of students is really a problem.....but what you are raising about the liquidity question also is if you ask people.....why aren't you exhausting your federal eligibility before you take a private loan? Maybe you just thought about it at the last minute and you didn't fill out the FAFSA or it's just so easy so let's just do it in one place. That kind of thing that's information; and I think we just really have to talk to people more about that kind of information and have payment plans that will not force people into that situation.

**Q.** Are institutions making rules that cause students not to be able to finance without loans?

**Dr. Baum:** I think that the question of.....you know, I don't know specifically what has happened to course requirements, certainly.....what you read about is institutions saying we are going to cut back on course requirements in the interest of our students. But lots of factors are driving.....the fact is that the price of college is going way up. The institutional response, I think, tends to be very defensive, it's not our fault. We have lower appropriations, which is absolutely true. Health benefits cost more, everything costs more and that's true. But that said, it is really clear that if we don't somehow hold the price of college down, this problem is going to be exacerbated and there's going to also be less of a public policy move toward solving it because in congress I tell you.....they.....they want to see what our institutions are doing. In fact they are having hearings next month that are sort of directed.....in the Republicans last month....directed at are.....does student aid cause tuition to rise? Rather than, you know, what do students need? So I think we have to, we absolutely have to do something other than be defensive about it. Every institution has to be thinking really hard even given their financial constraints, what can we do to make it easier for students to finance this without sacrificing the quality of education. So I totally agree with you that that's a big problem and we haven't figured out how to handle it.

**Q.** The question is what about direct to consumer loans?

**Dr. Baum:** I have no way of breaking out in my data, what is direct to consumer loans. I think we all have a sense that this is rising as a proportion of private loans. And because these figures come from the lenders, they do include the direct consumer loans and I think that it is something else that we have to be concerned about because, of course, students can just go off and do this. I think that any regulations that are put on private loans and the increasing conversation about.....concern on the Hill about preferred lender lists and so on. There is some sort of an idea out there that students should do.....figure out what is best for them. The idea that students can figure out what is best for them seems.....like rather a stretch. You can respond to the first email message you get, right? I think that it is a growing problem. I certainly don't have a solution for it but I think you are in a good position to come up with idea to.....1) to get the stories out there and.....let people.....let congress know because they really are

going to be .....they are focusing on institutions and institutional accountability. And the idea that you can just go around institutions and that that will make students better off, that what they think so you need stories about that not being true, I think.

**Q.** Are people taking unsubsidized loans because of parents being denied PLUS Loans?

**Dr. Baum:** PLUS Loan borrowing has, in fact, gone up quite significantly but why people are taking more unsubsidized loans? I have not seen any.....I don't know if we could look at.....I am not sure if the data are available to look at the reason for.....certainly we know that, you know, what is going on is that the increases in borrowing are more among.....are not among the lowest income students. So, looks like the increase in borrowing are quite significant among students that are not eligible for the loan subsidies. But the shift.....any shift from PLUS to unsub .....what the reasons are....I think you would probably have to survey some people; so it would be an interesting question to ask. I haven't seen anything about that.

**Q.** The question is really about the role of Pell Grants and defining needy students?

**Dr. Baum:** I think that this is a complicated question because I am increasingly getting this question about is it just the people just above Pell eligibility. There are a couple of things about it. One, if we raise the Pell Grant maximum, we also raise the income level at which you will qualify for a Pell Grant by definition by the way it works. So raising the Pell Grant doesn't just give more money to current Pell Grant recipients but in fact one reason that it is so expensive to raise the Pell Grant maximum, is because it brings more people into the system. The other issue is that, of course, just in the Pell program it self, the line between being Pell eligible and not Pell eligible is not so abrupt in the sense that its not like you get \$4,000 and then if you make a little bit of extra money, you don't get \$4,000. We are talking about getting a minimum Pell or not getting a Pell. So I think that, you know, there may be income levels at which the EFC is incorrectly calculated. I think probably most people would say nobody can afford the EFC level that is calculated for them. But certainly if you give people a zero EFC it is a non-issue. So somewhere in there, there is some path where maybe the EFC's get to be too high. I am thinking that this question, the question about just above the Pell comes up so frequently that it makes me think that part of the concern is, and I think this is a real concern, this is of course a bigger concern now with the new programs with the Academic Competitiveness and Smart Grant programs where you really do fall off a cliff. You get it or you don't. So a program that is designed, that gives you \$4,000 if you were eligible, you know for \$200 in Pell really then you suddenly have \$4,000 more and if your income is a little bit higher, you don't. That is a serious problem; for exactly what you are talking about. If you are just above the Pell cut off.

I think probably you have to be really careful about programs and I think there are programs on state levels like this too where they say Pell recipients get a great deal and non-Pell recipients don't and that's a real problem for people above the Pell cut off. But the Pell program itself doesn't work in that way and I would like to see.....I mean the

problem is.....there is a real trade off between what people want, like.....a simple table. If you are in this category and you can see this in some of these institutional programs. If you make less than X dollars per year, we pay for everything; you make more than that, we don't. That's a problem. Most of these policies, I mean, you know harbor with their clear announcement about this, it is not that you fall off the cliff if you make a little bit more, except that they are more generous to people after that cut off, they just want to make a simple announcement about it. Somehow figuring out how to be able to make the aid system transparent and clear but not create these situations that you are talking about where you fall off the cliff if you don't meet some cut off point. I think that is really important for exactly this reason and I guess they didn't think a whole lot before they instituted those programs.

**Q.** My question is not about increasing the number of people that are Pell eligible, but is more to the extent that recognizing that students that are not Pell eligible and don't have access to the capital that Congress thinks that they do and increasing the aggregate loan limits. That's the disconnect, that they are not really needy (Pell eligible) but then not allowing them to get enough to cover costs.

**Dr. Baum:** The idea that people can't borrow enough again is, I think, a serious problem. One thing that we probably have to talk about in policy terms, in terms of loan subsidies, is that they are now need based and not income based. So if you go to an expensive college they're giving subsidy loans to many high income people and if we are looking for ways to use our dollars more efficiently, we might...I mean, we do have to look at things we are willing to give up. One thing we might be willing to give up is that...you know if your kid goes.....as my kids do, to expensive private 4 year colleges, maybe we say we are not interested in need, we are interested in income and.....you know, and you and your institution can do that subsidy and use some of that subsidy to make loans more available to people to pay the cost of going to a public institution. I think that makes a lot of sense.

**Q.** Looking at the slides where you have the low income borrowers, the Pell eligible undergraduate debt level is just as high as non-Pell, within \$100 or so, my concern is when we try to package Pell and Campus based grants, they are still borrowing just as much as folks that aren't eligible for Pell grants and it's not doing any good according to the data. Can you explain that?

**Dr Baum:** What we are saying is that if you look on average at Pell recipients, they have accumulated about the same amount of debt. There are a couple of things going on here. Pell recipients are more likely to have gone to school for less time, unfortunately, right? So this puts together everybody who has a bachelors degree with everybody who dropped out before they got a bachelors degree or got an associates degree. That means.....that makes it worse actually, what you are saying, right? They are actually borrowing more. The issue is that we are not meeting the need. We may document that students have need but it is not like if you get a \$4,000 Pell grant.....oh, your need is met. Look at the cost of attendance at a public.....a community college. Tuition, its not tuition and fees at community college..\$2,000 – \$2,500. It is the cost of

attendance that's not met. These students have huge amounts of need and they clearly are not met by grant aid, federal grant aid, and state grant aid. There is lots of need and it's not met by federal loan limits either. So I agree with you there is just not enough aid out there certainly for students who don't have the money to pay and that's true certainly much farther up the income scale than the Pell cut off. You know, what do we do about that? We work for more grant aid and we try to hold costs of attendance down and the other thing though is you know if you look at the distribution of institutional grant aid and this is just in the news this week, is what our institutions are doing with their grant aid. The fact is that many, many institutions are using their institutional grant dollars to effectively cancel out the impact of federal and state grants. In other words, what they are doing is giving their grant aid more to higher income students and so the total package that the students get and this is particularly true at low price private colleges.....the total package is pretty even across the income scale. The institutions instead of supplementing the public grant aid for the low income students are using non-need based aid to attract students to their campuses. At public institutions, about 60 percent of the dollars that public institutions are giving out, are dollars going to students who don't have documented need. So, that's one thing we could do. We could use more of our institutional grant dollars to make sure that we help students who actually have need because we know that they don't have other sources of income to meet that need. No magic bullets though.

**Q.** An additional research question then would be if the Pell eligible students are attending a less amount of hours because they have to work, would that encourage borrowing because they are in school longer?

**Dr. Baum:** I think looking at those work and loan patterns is really important and I think also some good research of impact of hours worked is important because there are a lot of sort of cross tabs that say lets look at students who work a lot of hours and what happens to them. And it is very difficult, if you are working full time and going to school, maybe the problem is that you had to work full time and, therefore, you couldn't devote yourself to your studies. Or maybe the issue is that you are working full time and you decided to go to school a little bit and therefore, you know, then you decided maybe I won't go to school. So, there isn't really I think good research that really shows control of the other characteristics of the students what the impact of working different amounts of time is. There is sort of the common wisdom.... is that it's great to work 10 – 15 hours a week and more than that is bad for you but I don't really think we know and I would like to know.

**Q.** Should we limit how much students can borrow based on what we can predict about their future incomes?

**Dr. Baum:** I understand the concern; I think it is pretty risky thing to try to do. I think we can give people advice. I think that if someone is.....an aspiring.....artist and is going to an expensive private school and wants to borrow, you know, \$60,000 it is very reasonable to say to them, you know what, think about if you really want to be an artist.....think about not borrowing this money, go to a cheaper school. Give them that

advice. I am worried about two things. One, I feel like putting restrictions on people as opposed to giving them information. This is something I think we should be very nervous about. That's like the idea of keeping loan limits down, if we just don't give them the money, they won't borrow it. They will do what they're going to do. They will figure that out. And two, certainly, if someone is going to major in philosophy, I don't want to discourage people from majoring in philosophy by making..... loans.....them.....making them ineligible for loans. If we are talking about going to cosmetology school, and we are going to borrow \$50,000, that's a really bad plan. I think there is some hard evidence how much you can make when you come out of cosmetology school that we should stick in front of people and say we really strongly urge you not to do that. But it's not clear how we would ever make a policy that distinguishes between philosophy and cosmetology and I think that's really risky and I am very concerned, actually, about associating education too much with just your wages. I don't know, I mean, I totally agree with you that we should be discouraging many people from some of the paths that they are taking but I think we need to do it with information and advice and not really by limiting their access because there is all that uncertainty.

**Comment:** (paraphrased) With regard to the slide for low-income borrowers and Pell recipients or non-Pell recipients being similar in debt level. It is possible non-Pell recipients know how to budget and have more budgeting programs available that take into account books, clothing, cost of living, etc., that non-Pell recipients may not have and also a better network in place concerning borrowing and debt level. This may cause non-Pell borrowers to think they should borrow as much as they can because it is offered.

**Dr. Baum:** I am sure that is true that people in .....Pell recipients are less likely to have that network and that information and that sort of culture of reasonable borrowing. On the other hand, we think a lot about many of those students having more of an aversion to debt because they have not had good experiences with debt. So it is really hard to know. Of course, the other .....another answer to this is that if your not a Pell recipient, you are much more likely to have parents who could, for example, take out a home equity loan. And therefore.....and PLUS loans, of course, are not in these equations, and so loans that parents would otherwise take for Pell recipients, its much more likely that students are taking.....taking those loans.

**Q.** The question is can we restrict more? What is considered an educational loan?

**Dr Baum:** It seems to me we're moving in the other direction. I don't see how we can. Direct to consumer lending means we don't even know, frequently, what they are doing. And it is hard to imagine.....I mean maybe..... I just think that it is going to be really hard to do other than make sure there are reasonable restrictions on lending in general. I don't know but I do think that..... I know that Senator Kennedy's office, for example is very concerned about the private lending and the direct consumer lending and thinking about it but it is not easy to come up with solutions but you should make them if you have them.

I think that was the last question. Thank you all.